

EMERGING ISSUES FORUM 2015

By Natacha Dunker
Communications & Education Director

PERAC hosted its 11th Emerging Issues Forum on September 17, 2015 at the College of the Holy Cross in Worcester, Massachusetts. Over 260 individuals attended the event and retirement board members who attended earned three hours of educational credit.

PERAC Executive Director Joseph Connarton gave the opening remarks to welcome attendees to the Forum and State Treasurer Deborah Goldberg provided the keynote address for the conference. Her remarks emphasized her commitment to the public pension community and its long-term sustainability. She even stayed to speak directly with attendees at the conclusion of her remarks.

The first presentation was from Mr. Glenn Doggett of the Chartered Financial Analyst



(CFA) Institute. He provided a presentation on Alignment Principles from Trustee to Manager. His presentation provided attendees with background information on the CFA Institute as it relates to the pension system and the importance of ethics and a code of standards for members. His presentation covered examples and best practices on the topic.

Evan Tylanda of the Sustainability Accounting Standards Board (SASB), gave

a presentation on *Sustainable Investing: Investing for the Greater Good*, covering the issue of Environmental, Social and Governance (ESG) Investing. He also introduced attendees to tools SASB provides for investor education on the topic.

The morning break was followed by a panel presentation on OPEB and Treasurer Goldberg's keynote address.

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2015 COMMONWEALTH VALUATION STUDY

By James Lamenzo
Actuary

The Commonwealth Actuarial Valuation Report presents the results of the actuarial valuation of the pension benefits that are the obligation of the Commonwealth of Massachusetts. The 2015 report was released by PERAC on August 28, 2015. The four components of the report are the State Employees' Retirement System, the Massachusetts Teachers' Retirement

System, Boston Teachers, and the Cost of Living Allowance reimbursements to local systems. Two charts from the January 1, 2015 Commonwealth Actuarial Valuation Report are presented.

The bar chart shows the unfunded actuarial liability (UAL) since 1990. The UAL represents the actuarial accrued liability less the value of plan assets. As of January 1, 2015, the actuarial liability was \$81.5 billion and the actuarial value of plan assets was \$48.1 billion.

It is important to note that plan assets have grown faster than plan liabilities since 1990. As of January 1, 1990, the actuarial accrued liability was approximately \$20.0 billion and assets of \$7.8 billion resulted in a \$12.2 billion UAL. Since 1990, the actuarial liability has grown by about 4.1 times while assets have grown by about 6.2 times.

For this reason, we believe the funded ratio represents a better measure of the Commonwealth's progress. If you draw a straight line from *(Continued on page 6)*

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PERAC'S REDESIGNED WEBSITE LAUNCHED

By Natacha Dunker
Communications & Education Director

The new PERAC website has been live for over a month now. Like any new project, it has not been without its kinks along the way but we have been addressing any issues as they are brought to our attention.

To track usability and the user experience, our website has several feedback modules built in so that we can hear from users right away. We will be regularly analyzing the data received to monitor site needs.

One of the modules is the one question survey at the bottom of most pages that allows users the opportunity to provide page-by-page feedback. During our first month (October 21 to November 20), 59% of site users were able to find what they were looking for. Some of the “No’s” were a result of us working out the kinks to the site and correcting links that did not work initially, but many others were from public employees and retirees looking for general retirement information. We expected this, as we did not have a section specifically for this constituency before the redesign. These questions and suggestions will help us find out what additional information is needed.

Another module we have for feedback is our “Questions or Issues” online form. The majority of inquiries we received here were from individuals seeking general retirement information – again reinforcing our

assumption that there is a need for more information about retirement benefits for the general public.

Finally, the most robust method we have for analyzing our website is Google Analytics. With data from this free tool we are able to view an in depth analysis of our site, all of which assists us in planning our future content. Please see the graphic on this page for a breakdown of some of the data we reviewed.

The most notable change to the site was our policy on online documents. Most board documents and memos on the site will be removed after five years unless there is a compelling reason to keep them. Older documents will be available on the State Library website or at our office. Board reports such as audit reports and valuation reports will be replaced once a new report is available, with the exception of appropriation letters, which will be kept on the site for five years. We will continue to keep all PERAC Annual Reports and Commonwealth Valuation Reports online.

This new policy reduces the overall cost of our website by reducing the amount we store on the state server. Before launching the website we had approximately 7300 html pages on the site, many of which were redundant or outdated plus an additional 4000 pdf documents. Based on our new policy we now have approximately 1700 html pages and just over 1900 pdf documents, reducing our overall storage needs by 68%.

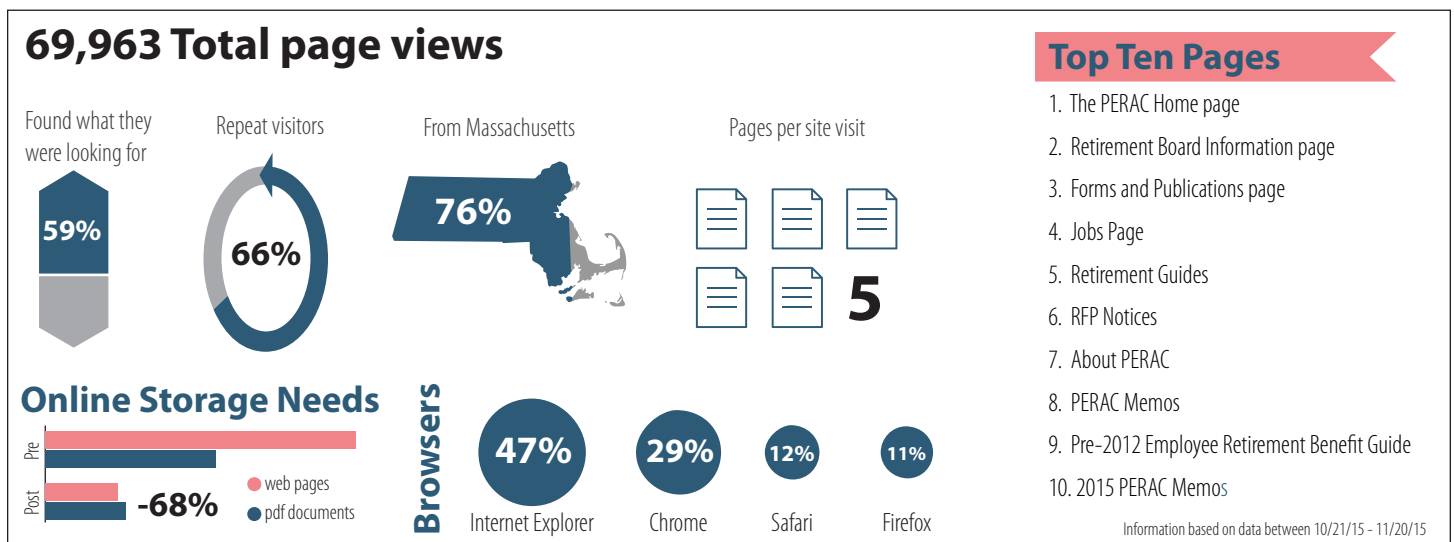
Even after the launch we continue to make changes. For example, the Pooled Fund Worksheet confirmation page has been completely redesigned directly based on feedback we received from users. Also, a Recent Updates list was added to the website, replacing the former “What’s New”. This permanent addition to our home page will contain major updates to the site, such as PERAC Memos, RFP announcements, job postings, and reports added to the website, such as new valuation reports, audit reports and letters to boards. Listings will show up in chronological order but will also show up on their respective pages throughout the website.

Future plans:

- Integrate the site with the new computer system being developed and provide an administrator and retirement board member portal.
- Update member forms for increased usability and compliance with retirement laws. We will be putting together a small working group of board administrators to assist us as we develop new forms in 2016. Let us know if you would like to participate.

Thank you for your patience as we worked on this project and also, thank you for all of your comments and suggestions. The work is just beginning! ■

PERAC Website at a Glance:



PUBLIC SERVICE COMMITTEE HEARS TESTIMONY ON HOUSE 17

By Michael DeVito
Director of Strategic Planning,
Management and Public Affairs



The Public Employee Retirement Administration Commission testified on behalf of its bill, H. 17: AN ACT AUTHORIZING THE PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION TO HOLD HEARINGS, before the Joint Committee on Public Service on Tuesday, November 10, 2015 at the State House. Testifying for PERAC were Commissioner James Machado, Executive Director Joseph E. Connarton and Deputy General Counsel Judith Corrigan.

Background of the Bill

Section 9 of Chapter 36 of the Acts of 2012 [now inserted into the Massachusetts General Laws as Chapter 32, Section 15(7)] states in part that:

In no event shall any member be entitled to a retirement allowance under sections 1 to 28 inclusive, which is based upon a salary that was intentionally concealed from or intentionally misreported to the commonwealth, or any political subdivision, district or authority of the commonwealth, as determined by the commission.

If a member intentionally concealed compensation from or intentionally misreported compensation to an entity to which the member was required to report the compensation, even if the reporting was not required for purposes of calculating the member's retirement allowance, the member's retirement allowance shall be based only upon the regular compensation actually reported to that entity or the amount reported to the board, whichever is lower.

The Commission in filing the bill felt that it was important that its authority to conduct a comprehensive and appropriate process relative to this mandate be clearly specified in statute. This legislation spells out PERAC's ability to conduct hearings and investigations related to Chapter 32, Section 15(7) and to provide guidance related to said matters. It authorizes and directs the Commission in such cases to conduct a hearing and allocates to the Commission the authority to take evidence, subpoena witnesses, administer oaths and examine such parts of the books and records of the parties to a proceeding as they relate to the questions in dispute. It also provides for the payment of fees to witnesses at such hearings which shall be the same as for witnesses before the courts in civil actions, and shall be paid from the operating fund of the commission.

PERAC Executives Testify

PERAC Commissioner James Machado testified in support of H. 17. Injecting some levity into the proceedings, he noted that prior to pension reform in 2011 PERAC was a "toothless tiger" but that subsequently we now "have dentures". He implied that H. 17 would provide real and necessary teeth to the agency to carry out the statutory requirements of Chapter 32, Section 15(7) that have been delegated to the agency by the legislature.

Executive Director Connarton was clear in pointing out to the Committee that the additional authorities conveyed in H. 17 were limited only to those specific cases in which a member of a system intentionally concealed compensation from or intentionally misreported compensation to an entity to which the member was required to report his/her compensation. He noted that the legislation that requires PERAC to make a determination in such cases was the direct result of actions that later resulted in the criminal conviction of the former Executive Director of the Chelsea Housing Authority, Michael E. McLaughlin.

Mr. Connarton also pointed out that it is important to note that all 104 retirement boards under PERAC's jurisdiction have the ability to issue subpoenas and hold hearings

as required to meet their responsibilities. He noted that the Commission only asks that to meet our statutory responsibilities, solely in this very limited circumstance, that these tools be available to PERAC.

PERAC's Deputy General Counsel Judith Corrigan, speaking from a legal perspective, reinforced these arguments providing her view that it was important for the agency to be granted this authority albeit only under the very limited context of Chapter 32, Section 15(7).

In his written testimony, Mr. Connarton also noted:

We are aware that the assignment of subpoena powers is frowned upon by those who see this as PERAC's emergence as something of a "law enforcement" agency. The General Court has assigned the responsibility of determining if a violation of § 15(7) has occurred to the Commission and it is our view that we need these additional tools in these limited cases in order to systematically, comprehensively and effectively execute this directive.

The ability to conduct a hearing and elicit requisite testimony and pertinent records will allow us to professionally conduct the regulatory reviews mandated by Section 9 of Chapter 36 of the Acts of 2012.

Mr. Connarton expressed the Commission's hope that H. 17 will be reported favorably by the Joint Committee on Public Service as soon as possible.

Opposition to the bill was presented by several organizations including: The Professional Firefighters of Massachusetts; the Boston Firefighter's Union; the Massachusetts Coalition of Police; and, the National Association of Government Employees.

To date, no action has been taken by the Committee. ■

HIGHLIGHTS FROM EMERGING ISSUES AND FALL MACRS CONFERENCES

PERAC staff and invited speakers gave presentations on a variety of topics at both the Emerging Issues Conference and at the Massachusetts Association of Contributory Retirement Systems Fall Conference.



Joe Shortsleeve, The Liberty Group



State Treasurer Deb Goldberg



Ashley McCown, Solomon McCown & Company



Paul Todisco, PRIM



Kathleen Kiely-Becchetti, President, MACRS



Shaun Duhamel, Mass Retirees



Judith Corrigan, PERAC



Mike DeVito, PERAC

PERAC Commissioner and Needham Town Manager, Kate Fitzpatrick, organized the panel presentation, OPEB: The Costs & Challenges of Implementation. Her portion of the presentation focused on the Municipal Perspective - What Towns are Doing: Needham's Experience Funding the ARC.

Scott McIntire of Melanson Heath highlighted the changes that are on the horizon because of GASB Statements 74 & 75 and how boards should prepare with his presentation, *The Auditor's Experience: The Real Impact of Governmental Accounting Standards Board (GASB) 74 & 75*. He noted that guidance is still evolving and recommended boards start scrubbing data now for completeness and accuracy.

The Segal Company's Daniel Rhodes provided the actuary's perspective with *How Working With The Actuary Can Help Municipalities Make Progress Toward Funding OPEB*.

Mr. Rhodes provided some information on what is included in GASB 74 & 75 but noted that it does not address funding. Funding is a policy decision for local government officials to determine. He also provided examples of OPEB funding and the blended discount rate both before GASB 74/75 and after.

The panel was rounded out by Mr. Paul Todisco, of PRIM, who presented on PRIT and the State Retiree Benefits Trust, what is it, who can invest, as well as the benefits of investing in the SRBTF.

The panel was a thoughtful presentation on the issue and we received positive feedback from attendees who appreciated the information.

The afternoon session on Media / Crisis Relations, *How to React & Respond!*, was among the most well received sessions of the day based on attendee feedback. Former reporter, Joe Shortsleeve, of the Liberty Group, and Ashley McCown, of Solomon McCown & Company, gave a lively presentation on the do's and don'ts when dealing with the media, particularly in a crisis situation. Their presentation was both entertaining and informative.

I had the honor of closing out the day's events with a sneak preview of our new website, which went live on October 21st. See the article on page 2 for more information on PERAC's new portal.

The presentations are available on our website if you would like to review them again. As always, we appreciate all of the feedback we receive at the Forum so that we can work on making each year better than the last. We at PERAC want to thank everyone who helped make the event a success! ■



PERAC staff greet attendees at Emerging Issues Forum



Q & A at Emerging Issues Forum



OPEB Panel at Emerging Issues Forum



Natacha Dunker, PERAC

the 1990 funded ratio of 39.0% to the January 1, 2015 amount of 59.0%, the line is moving upward to the right. This demonstrates the funding progress to date. Although the funded ratio reached 85.2% on January 1, 2000, this was the result of average annual returns from 1985-1999 that exceeded 12.5% and attaining such a high level of funding so quickly was not expected. Over the past 15 years (2000-2014), the average annual return on assets on a market value basis is approximately 6.1%. Over a 10-year and 5-year period, the returns have been 7.0% and 10.0% respectively. The 30 year return is 9.8%.

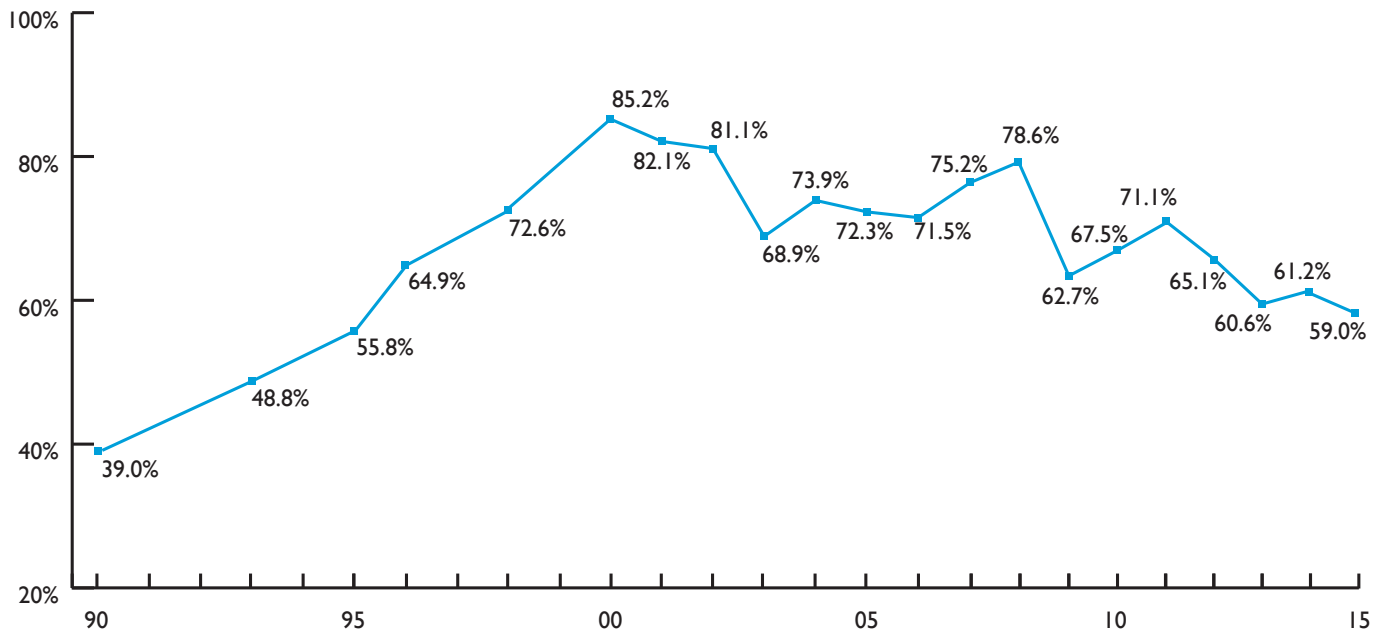
Note that the actuarial liability as of January 1, 2015 increased \$3.5 billion to reflect a

reduction in the investment return assumption from 8.0% to 7.75% and a change to a fully generational mortality assumption. There have been a number of other plan and assumption changes in the past 5 years that have increased the Commonwealth actuarial liability. These changes include a reduction in the investment return assumption from 8.25% to 8.0% as of January 1, 2013, annual adjustments to the mortality assumption, the adoption of a \$13,000 COLA base, the transfer of active members of sheriff departments in six counties to the State, and the transfer of former members of the Massachusetts Turnpike Authority Retirement System to the State. Including the changes as of January 1, 2015, the actuarial liability is approximately \$6.8 bil-

lion greater than it would have been using the 2010 basis. Therefore, on a comparable basis with the 2010 plan provisions and assumptions, the UAL on January 1, 2015 would be \$26.6 billion and the funded ratio would be 64.4%. ■

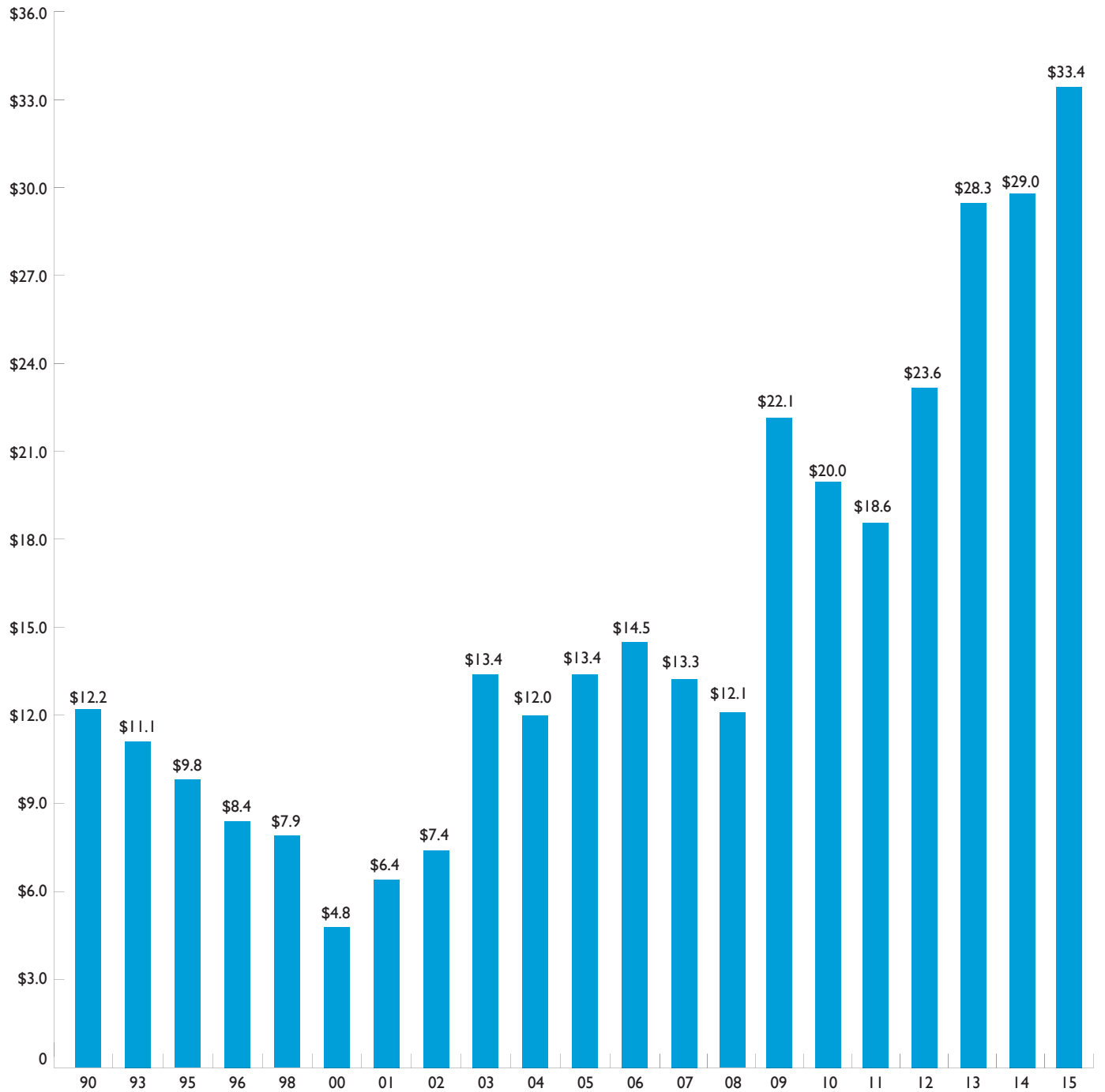
The 2015 Commonwealth Actuarial Valuation Report can be accessed on PERAC's Website at: <http://www.mass.gov/perac/docs/forms-pub/reports/valuation-reports/2015commonwealth.pdf>

COMMONWEALTH FUNDED RATIO



COMMONWEALTH UNFUNDED LIABILITY

(in billions of dollars)



SCOTT HENDERSON APPOINTED PERAC'S DEPUTY CHIEF AUDITOR

Executive Director Connarton announces the promotion



PERAC's Executive Director, Joseph E. Connarton has announced that he has appointed Scott Henderson to the position of Deputy Chief Auditor at the agency. Mr. Henderson began his tenure at PERAC as an Actuarial Analyst on October 26, 1998. In 2008, after 10 years' experience in the Actuarial Unit, during which time he passed three Society of Actuaries examinations, he transferred and began lending his talents to the Audit Unit as an Auditor. Now, after 7 years he has been

promoted to the position of Deputy Chief Auditor working under Harry Chadwick, Chief Auditor of PERAC.

Mr. Henderson is a graduate of the University of Massachusetts at Amherst with a B.S. degree in Mathematics.

PERAC's Executive Director Joseph E. Connarton commented on his appointment of Mr. Henderson:

I am pleased to announce the appointment of Scott Henderson to the position of Deputy Chief Auditor at PERAC under Chief Auditor Harry Chadwick - replacing recently retired Deputy Chief Auditor Jim Tivnan.

Scott is a veteran at PERAC having served in the agency with

distinction for 17 years in two very important agency Units – Actuarial and Audit. These two units provide essential functions toward PERAC fulfilling its statutory responsibilities to provide Actuarial analysis of our 104 systems and to audit those systems at least triennially. In both of these functions Scott has excelled.

Now, with the retirement of Jim Tivnan, I am pleased to announce Scott's promotion to this important position. I know that the Commission and all of Scott's colleagues join me in congratulating him on his promotion. It is well deserved. ■

New Survey on PERAC EDUCATION

Help us plan our Educational Programming for 2016 by completing a brief survey.

Are there classes you would like to see offered?
Are the classes in depth enough or do they go too far?
Are there locations that would be more convenient?
Let us know what you think!

Go to: <https://www.surveymonkey.com/r/ZV5VYDL>



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